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DE RUEHAA #0254/01 0511056

ZNY SSSSS ZZH

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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0309

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0246

RUEHAK/AMEMBASSY ANKARA PRIORITY 3410

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1228

RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0054

RUEHOT/AMEMBASSY OTTAWA PRIORITY 0040

RUEHKO/AMEMBASSY TOKYO PRIORITY 1095

RUEHIT/AMCONSUL ISTANBUL PRIORITY 1664

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHMFIS/CDR USCENTCOM MACDILL AFB FL PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/Joint STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

S E C R E T SECTION 01 OF 04 ASHGABAT 000254

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STATE FOR SCA/CEN, EEB FOR AMB. STEVEN MANN

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ENERGY FOR EKIMOFF/THOMPSON

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E.O. 12958: DECL: 02/15/2018

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SUBJECT: TURKMENISTAN: WHY BURIED HILL FOR SERDAR? WHY NOW?

REF: ASHGABAT 0164

Classified By: CDA RICHARD E. HOAGLAND: 1.4(B),(D)

**¶11. (C) SUMMARY:** Canadian petroleum company Buried Hill signed a contract in December 2007 to work Caspian Block III -- a key area disputed by Turkmenistan and Azerbaijan -- but the deal was not announced until after a February 12 meeting between the company's CEO, Roger Haines, board member former Canadian Prime Minister Jean Chretien, and Turkmenistan's President Berdimuhamedov, according to Buried Hill's country manager. The deal originated in a memorandum of understanding (MOU) that the company signed with Turkmenistan in September 2004 to work an on-shore block at Tagta-Bazar and Block III, and the company has been working since that time to bring the deal to completion. In the two months since the contract was signed, the company has reportedly complete seismic imaging surveys and hopes to begin drilling by late 2008. While acknowledging that the company would be drilling in a disputed area, the country manager confidently asserted that there is no reason for the company to run into trouble because the agreement is "purely commercial." We speculate publicizing the deal now might be part of Ashgabat's negotiating strategy with Baku. END SUMMARY.

**¶12. (SBU)** Turkmenistan's state-run media announced February 13 President Berdimuhamedov had met February 12 with Canadian petroleum firm Buried Hill's CEO Roger Haines and board member former Canadian Prime Minister Jean Chretien. According to the media reports, Haines briefed the president about the status of its work in the block and plans to begin drilling soon. The television news report of the meeting showed no other Turkmen official on Berdimuhamedov's side of the table, but, oddly enough, State Agency Hydrocarbon Director Murandov sitting on the Buried Hill side as interpreter.

## BURIED HILL CONFIRMS DEAL

¶3. (C) During a February 18 meeting with PolOff, Buried Hill's country manager Eldar Iskanderov confirmed that the company has had a memorandum of understanding (MOU) with Turkmenistan for an on-shore block in Tagta-Bazar and for Block III in the Caspian Sea since September 2004, and signed a production sharing agreement (PSA) with Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources in December 2007. (NOTE: Block III, which contains the disputed islands of Serdar/Kapaz and Azeri/Chirag/Guneshli, is different from Turkmenistan's Block 3, which is located in the far northwest quadrant of Turkmenistan's Caspian Sea claims. END NOTE.) According to Iskanderov, the PSA is for the entire Block III, but does not include the on-shore Tagta-Bazar block, though Iskanderov confirmed that the MOU for Tagta-Bazar remains in force. Iskanderov said during the meeting that his company is very optimistic that the Government of Turkmenistan will eventually agree to allow western companies to drill on-shore. Companies, however, must have patience and use the "right approach" in making their case.

¶4. (C) Iskanderov stated that the company had been negotiating its PSA for more than a year. He claimed negotiations had been "very smooth," and characterized the company's new PSA as a "standard-type agreement," with a "fair" cost-recovery factor closer to that which Wintershall received in the mid-2000's than to those signed in the mid 1990's.

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## NO POLITICS INVOLVED: SOLELY A COMMERCIAL DEAL

¶5. (C) Since the PSA was signed in December 2007, Iskanderov claimed, Buried Hill has carried out seismic imaging of Block III. He asserted the February 12 meeting with the president was solely to inform him of the company's progress in Block III, and to congratulate him on the first anniversary of his inauguration. Buried Hill's decision to announce its new PSA via a press release on its website was made with the full approval of the Government of Turkmenistan. When asked why the government had not confirmed the PSA in its reporting on the meeting, Iskanderov suggested that the reference in the government's media coverage to the "contract" was meant to be a tacit admission that the PSA exists. (NOTE: See para 10 below. END NOTE.) However, Iskanderov somewhat evasively maintained that Buried Hill is making its announcement now because "it is time. People need to know."

¶6. (C) Iskanderov also maintained that the signing of the PSA is solely a commercial deal, and the on-going delimitation talks between Turkmenistan and Azerbaijan have nothing to do with Buried Hill. The company signed a contract with the government in whose territory Block III is contained. It is for Turkmenistan, though, and not Buried Hill, to resolve the territorial differences with Azerbaijan.

## PLANS TO BEGIN DRILLING IN LATE 2008

¶7. (C) Buried Hill says it plans to begin drilling 3-4 wells, beginning at the outermost edge of Block III and gradually working its way westward. The biggest bottleneck is in getting a rig in place. All the rigs currently in the Caspian Sea are already contracted for, and the closest alternative deep-water rigs are in the North Sea and the Persian Gulf. However, Buried Hill hopes to begin drilling its first exploratory well before the end of 2008. It expects to find both oil and substantial amounts of associated gas. Iskanderov claimed that his company has not yet decided how to transport the hydrocarbons it produces. In principle, it is willing to transport its oil and gas by pipeline in any direction. He suggested that that Buried

Hill hopes to build a joint (with Petronas) pipeline to the shore, where Buried Hill would then process its oil and gas. However, Iskanderov said, his company has not yet approached either BP or Petronas to discuss transport options.

WINTERSHALL DIRECTOR: HAINES IS BAD NEWS

¶ 18. (C) According to Wintershall/Maersk country manager Kal Sandhu, who claims to know Haines from when both worked in the Persian Gulf and to have followed his career closely, Haines at that time was working in a company which he owned, Gulfstream, that "became involved in shady -- even illegal -- activities." The company was finally sold, and Haines fled. Eventually, he founded Buried Hill. Sandhu suggested that Buried Hill first went after Tagta-Bazar, but that former President Niyazov also gave the company Block III with the expectation that Buried Hill would negotiate directly with Azerbaijan. (COMMENT: Embassy has heard Buried Hill was talking to the Government of Azerbaijan as recently as a year ago. END COMMENT.) Sandhu characterized the Block III arrangement as the "price" of getting an MOU for Tagta-Bazar.

¶ 19. (C) Sandhu, who claims to have weekly meetings with State Agency head Muradov, also indicated that, according to Muradov, Berdimuhamedov's administration does not like the Tagta-Bazar/Serdar arrangement but feels that it must go

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forward because it does not know legally how to get out of the arrangement. Muradov once told him that he doesn't know much about Buried Hill, and asked Sandhu what he knew. Sandhu claimed to have told Muradov that Haines is "a scheming, lying opportunist who is bad news."

¶ 10. (C) Charge met February 20 with Hydrocarbon State Agency Director Byrammurat Muradov to try to seek clarification on the Buried Hill deal. Muradov

-- asserted the deal with Buried Hill is a "contract," not a traditional production sharing agreement;

-- claimed Turkmenistan had engaged international legal counsel to help vet the contract -- Calgary-based international energy negotiator Frank Alexander of Fraser Milner Casgrain LLP;

-- insisted the contract is structured so Buried Hill cannot resell its rights to another company but only return them to Turkmenistan, and said the contract includes "achievement benchmarks" that can be deal-breakers if not met; and

-- said Turkmenistan and Buried Hill are already looking for rigs that would allow drilling to start soonest, and think that a rig currently in the Caspian owned by Maersk Oil Turkmenistan might be available.

¶ 11. (C) When asked, "Why now?" Muradov responded "Azerbaijan has already had BP working our disputed area. We wanted to get started as soon as possible." When asked, "Why Buried Hill?" he replied, "We chose them because no one trusts them. They're eager to prove themselves, and so they will be more loyal to us. Besides, Jean Chretien is a famous name, and that helped us decide, too," suggesting Chretien may have been involved in earlier negotiations. Muradov added that no other company was willing to take on Serdar because of the unresolved delimitation issue with Azerbaijan. In response to another probe, Muradov asserted categorically, "Turkmenistan will never agree with Azerbaijan to develop Serdar jointly." When Charge suggested he had rumors otherwise, Muradov didn't back down but shrugged, "I don't believe it, but that would be a political decision," suggesting the possibility he is not fully in the President's loop. He added, "In any case, we would have to deal as equals."

¶ 12. (S) COMMENT: We question whether Buried Hill has the

technological know-how to drill off Serdar, whether they can actually get a rig, and even whether they have the intention to do so. Further, we wonder if Turkmenistan signing the Buried Hill agreement in December 2007 and announcing it now is intended as a negotiating strategy with Azerbaijan. In the past, the government has always firmly declared bilateral Caspian delimitation with Azerbaijan is the sine qua non for any other step, and added Baku must compensate Ashgabat for the resources it is "stealing" from the disputed area. In October 2007, Charge offered to Foreign Minister Meredov U.S. quiet diplomacy as an honest broker with Azerbaijan to try to move forward delimitation and the possibility of a Caspian Sea "infrastructure interconnector" as a prelude to an eventual Trans-Caspian Pipeline. At that time, Meredov did not say no, but did not reply. Turkmenistan signed the Buried Hill "contract" in December 2007. By early January, Meredov told the Charge Turkmenistan was ready for "detailed discussions with Ambassador Steven Mann on Azerbaijan." On January 29, President Berdimuhamedov told Ambassador Mann in confidence he wanted the United States to help devise a legal

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structure to allow Turkmenistan and Azerbaijan jointly to develop the disputed mid-Caspian Serdar field (reftel). With BP already working the general area for Azerbaijan, maybe Turkmenistan felt it needed to have a similar enterprise under way to be able to negotiate more equally with Baku.

¶13. (C) COMMENT CONTINUED: Muradov freely admitted that choosing a small and questionable company like Buried Hill is counter-intuitive, but his comment that a firm like Buried Hill "will be more loyal" is telling. If nothing else, it emphasizes Turkmenistan's general comfort working with small companies from the Niyazov era and its general discomfort -- and insecurity -- dealing with international majors. END COMMENT.

HOAGLAND